Bell

Bell Canada Financial Statements

for the year ended December 31, 1986

Annual Report 1986

L. Montambault
President and
Chief Executive Officer

Bell Canada
1050, côte du Beaver Hall
Montréal (Québec) H2Z 1S4

March 3, 1987

Dear Shareholder,

Enclosed you will find the Bell Canada Annual Report 1986 which contains detailed information concerning our financial results for 1986.

This is my first communication to you as President and CEO of Bell Canada and I am pleased to report a very successful year.

1986 saw a substantial increase in the demand for our services. The number of network access services (approximates lines in service) increased by nearly 312,000 to over 7.4 million. As well, for the first time ever, Bell achieved one billion long-distance calls in one year and 1986 ended with an increase of over 100 million long-distance messages over 1985.

As a result of this growth, and of the continuing control of expenses and improvements in productivity, we achieved a higher net income, before extraordinary item, of $683.9 million in 1986 (compared to $652.1 million in 1985) and a return on average common equity, before extraordinary item, of 13.5 per cent.

In October 1986, the Canadian Radio-television and Telecommunications Commission (CRTC) rendered its much publicized decision regarding Bell's revenue requirements for 1985, 1986 and 1987. As part of its decision, the CRTC directed Bell to lower long distance rates within its territory. The reduced rates became effective January 1, 1987. The CRTC also directed the company to provide most of its subscribers with a one-time credit totalling $206 million. Bell has commenced appeal proceedings before the Federal Court of Appeal asserting that the CRTC lacks the jurisdiction to order this credit.

In 1986, we laid the groundwork for a promising future. More than ever before, we strove for success on all fronts: from operations, to the introduction of new products and services, to the significant increase in direct marketing sales.

We actively pursued our commitment to the Integrated Office System (IOS) program. In our efforts to enhance our office productivity, we continued our internal deployment of IOS, bringing the total internal user community to 4,600.

Of the many steps we took to ensure our continuing telecommunications leadership, one of the most significant was the creation of Bell Information Systems. This new sales and service division was formed to rationalize distribution channels and better provide competitive services to large businesses.

During the year, Bell introduced a variety of new products and services among which were three new fully-digital Meridian telephones designed to be the future mainstay terminals for our SL-1 family of private business exchanges.

In March, we started the trial of Call Management Services in Peterborough (Ontario), which is among the first applications of the digital "intelligent network" to residential and single line business customers. This test is an important step towards our long-term goal of a single digital network ultimately integrating Bell's voice, data, text and image services. Major trials of the technology of this Integrated Services Digital Network (ISDN) will start in mid-1987.

We will continue to develop new products and seek new business opportunities in 1987 and beyond. With innovative business initiatives, our impressive productivity gains, new and "intelligent" products and services, and our commitment to quality, I am confident that we are well equipped to face the challenges which lie ahead of us.

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Bell Canada
1050 côte du Beaver Hall
Montréal (Québec)
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Form 10-K

Bell Canada's Annual Report on Form 10-K is available from the date of its filing with the Securities and Exchange Commission in the United States by writing to:
The Vice-President and Corporate Secretary
Bell Canada
1050 côte du Beaver Hall
Bureau 1420
Montréal (Québec)
Canada
H2Z 1S4

Sur demande, le vice-président et secrétaire de la société vous fera volontiers parvenir un exemplaire français du rapport annuel 1986 de Bell Canada

BUSINESS OF BELL CANADA

Bell Canada was incorporated by Special Act of the Parliament of Canada in 1880 and continued under the Canada Business Corporations Act effective April 21, 1982. Bell Canada, formerly the parent company of the Bell Canada group of companies ("Bell Group"), became a subsidiary of Bell Canada Enterprises Inc. ("BCE") as a result of the reorganization of the Bell Group on April 28, 1983 which established BCE* as the publicly held parent corporation of the Bell Group. BCE owns all the outstanding voting shares of Bell Canada.

Bell Canada is the largest Canadian supplier of telecommunications services and as a telecommunications operating company, owns and operates a public switched network for voice, data and image communications in the provinces of Ontario and Québec and in the Northwest Territories.

Telecommunications services generate two major revenue streams, local service revenues and long distance service revenues, which accounted for approximately 87% of Bell Canada's consolidated total operating revenues in 1986. Local service revenues are derived mainly from network access services provided to the business and residence subscriber markets. As at December 31, 1986, Bell Canada provided about 7.4 million total network access services (approximates lines in service) to its business and residence customers. These services account for about 93% of all such services provided by telephone companies in Ontario and Québec and about 57% of all such services provided by telephone companies in Canada. As at December 31, 1986, Bell Canada owned and operated about 9.0 million telephones through its telecommunications network. Network access services, telephones and related auxiliary equipment are provided to subscribers primarily on a monthly contract basis. Long distance service revenues include long distance message revenues as well as revenues from the provision of various other services such as WATS and 800 Service, business data and private line voice services. These revenues are derived from services originating and terminating within Bell Canada service territory (intra-Bell), and from services provided jointly with other telecommunications companies (settled). Most of the settled revenues are derived from an agreement with the members of Telecom Canada, a working association of nine major Canadian telephone companies, including Bell Canada, and Telesat Canada ("Telesat"). Bell Canada also derives revenues from the leasing of terminal equipment under sales-type leases and from the sale of terminal equipment to the business and residential markets.

Bell Canada is subject to the jurisdiction of the Canadian Radio-television and Telecommunications Commission in various respects including its rates, costing and accounting procedures. Bell Canada does not have exclusive franchises to furnish its regulated telecommunications services. However, no other company offers basic local and long distance public switched network telephone service in Bell Canada's service area.

Tele-Direct (Publications) Inc., a wholly-owned subsidiary of Bell Canada, is engaged in the sale of telephone directory advertising, representing 70% of the Canadian market, and in the publishing of white pages and Yellow Pages* directories for Bell Canada and other Canadian telephone companies. On December 31, 1986, Bell Canada sold to BCE its wholly-owned subsidiary Bell Canada Management Corporation.

In addition, Bell Canada has minority common equity interests in Telesat (24.6% owned), which is engaged in the provision of satellite communications services principally between locations within Canada, and in Bell-Northern Research Ltd. (30% owned), an industrial research and development organization.

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*Trademark

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Bell Canada and its subsidiaries and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgements. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

Management of the Corporation and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements in this Annual Report principally through its Audit Committee, consisting of six members, four of whom are outside directors. The Audit Committee reviews the Corporation's annual consolidated financial statements and recommends their approval to the Board of Directors. The internal and the Shareholders' auditors have free and independent access to the Audit Committee.

These financial statements have been examined by the Shareholders' auditors, Touche Ross & Co., Chartered Accountants, and their report follows.

R.A. Hamilton Harding
Vice-President and Comptroller

AUDITORS' REPORT

To the Shareholders of
Bell Canada

We have examined the consolidated balance sheets of Bell Canada and its subsidiaries as at December 31, 1986 and 1985 and the consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Bell Canada as at December 31, 1986 and 1985 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1986 in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Montréal (Québec) Canada
February 10, 1987

Touche Ross & Co.
Chartered Accountants

BELL CANADA

CONSOLIDATED INCOME STATEMENT
for the years ended December 31

	1986	1985	1984
	(millions of dollars)		
Operating revenues			
Local service	$2,275.3	$2,254.5	$2,198,5
Long distance service	3,184.7	2,886.9	2,594.1
Directory advertising and miscellaneous — net	794.6	627.2	498.0
Total operating revenues	6,254.6	5,768.6	5,290,6
Operating expenses	4,516.5	4,142.6	3,808.2
Net revenues	1,738.1	1,626.0	1,482.4
Other income			
Dividends from parent company (note 2)	10.7	18.6	31.3
Allowance for funds used during construction	26.1	21.1	20.5
Miscellaneous — net	42.8	21.1	33.3
Total other income	79.6	60.8	85.1
Interest charges	430.9	422.9	402.3
Unrealized foreign currency losses	37.7	37.8	21.1
Income before income taxes and extraordinary item	1,349.1	1,226.1	1,144.1
Income taxes (note 3)	665.2	574.0	517.4
Income before extraordinary item	683.9	652.1	626.7
Extraordinary item (note 4)	27.3	—	—
Net income (note 19)	711.2	652.1	626.7
Dividends on preferred shares	50.4	43.4	46.0
Net income applicable to common shares	$ 660.8	$ 608.7	$ 580.7

The important differences between Canadian and United States generally accepted accounting principles affecting the consolidated income statement are described and reconciled in note 15.

BELL CANADA

CONSOLIDATED BALANCE SHEET
as at December 31

	1986	1985
	(millions of dollars)	
Assets		
Current assets		
Cash and temporary cash investments — at cost (approximates market), including \$151.9 (\$0.3 — 1985) due from parent company	\$ 152.6	\$ 34.2
Accounts receivable — principally from customers, including \$6.4 (\$5.7 — 1985) from parent, affiliated and associated companies, less \$9.3 (\$6.6 — 1985) for provision for uncollectibles (note 6)	927.0	780.5
Prepaid expenses	80.5	76.2
Other	90.9	74.0
	1,251.0	964.9
Investments		
Parent company — at cost (note 2)	78.7	153.7
Associated companies — at equity (note 1)	65.5	95.5
	144.2	249.2
Property, plant and equipment — at cost (note 5)		
Buildings, plant and equipment	15,442.6	14,826.6
Less: Accumulated depreciation	5,285.7	5,132.8
	10,156.9	9,693.8
Land	87.7	87.7
Plant under construction	357.0	266.0
Material and supplies	71.3	70.7
	10,672.9	10,118.2
Other assets		
Long term receivables (note 6)	269.4	205.4
Deferred charges — unrealized foreign currency losses, less amortization	295.3	347.2
— other	60.4	56.0
	625.1	608.6
Total assets	\$12,693.2	\$11,940.9
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable — including \$118.1 (\$195.9 — 1985) due to parent, affiliated and associated companies	\$ 565.8	\$ 604.9
Advanced billing and payments	106.9	94.1
Dividends payable — including \$128.0 (\$121.2 — 1985) due to parent company	129.9	121.6
Taxes accrued	179.9	149.4
Interest accrued	112.9	108.3
Debt due within one year (note 7)	207.3	239.2
	1,302.7	1,317.5
Long term debt (note 8)	4,157.3	4,020.2
Deferred credits		
Income taxes	1,624.4	1,537.2
Other	173.5	106.1
	1,797.9	1,643.3
Share capital authorized (note 9)		
Preferred shares (note 10)		
Non-convertible (redeemable)	235.5	89.1
Convertible (redeemable)	257.9	263.9
Other (series 6)	125.0	125.0
	618.4	478.0
Common shareholders' equity		
Stated capital of common shares (note 11)	2,017.4	1,861.4
Premium on share capital (note 11)	1,033.5	1,033.5
Retained earnings	1,766.0	1,587.0
	4,816.9	4,481.9
Commitments and contingent liabilities (notes 5 and 19)		
Total liabilities and shareholders' equity	\$12,693.2	\$11,940.9

R. A. Hamilton Harding, Vice-President and Comptroller

On behalf of the Board of Directors:

J. H. Moore, Director

P.-G. Tremblay, Director

BELL CANADA

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the years ended December 31

	(millions of dollars) 1986	1985	1984
Balance at beginning of year	$1,587.0	$1,429.3	$1,280.8
Net income	711.2	652.1	626.7
	2,298.2	2,081.4	1,907.5
Deduct:			
Dividends			
Preferred shares	50.4	43.4	46.0
Common shares	480.0	450.3	432.2
	530.4	493.7	478.2
Expenses of issues of share capital	1.8	.7	—
	532.2	494.4	478.2
Balance at end of year	$1,766.0	$1,587.0	$1,429.3

BELL CANADA

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the years ended December 31

	(millions of dollars)		
	1986	1985	1984
Cash provided from (used for) operating activities			
Income before extraordinary item	$ 683.9	$ 652.1	$ 626.7
Items not affecting cash			
Depreciation	972.4	950.4	879.5
Deferred income taxes	63.7	58.7	83.3
Allowance for funds used during construction	(26.1)	(21.1)	(20.5)
Miscellaneous	33.9	51.8	(9.3)
Changes in working capital (note 13)	(150.6)	6.7	(55.1)
Other items	107.0	12.2	20.5
	$ 1,684.2	$ 1,710.8	$ 1,525.1
Cash provided from (used for) financing activities			
Increase (decrease) in notes payable, bank advances and term bank loan	$ 112.4	$ (59.3)	$ 34.1
Proceeds from long term debt	318.1	245.5	246.4
Issue of preferred shares	148.2	124.3	—
Issue of common shares	150.0	—	—
Repayment of long term debt	(323.3)	(264.8)	(143.1)
Miscellaneous	1.9	.5	(4.1)
	$ 407.3	$ 46.2	$ 133.3
Cash provided from (used for) capital expenditures and investing activities			
Capital expenditures — net	$(1,632.3)	$(1,409.8)	$(1,185.8)
Proceeds from the sale of a building	—	85.5	—
Proceeds from redemption of investment in the parent company	75.0	150.0	75.0
Proceeds from the sale of a subsidiary (including working capital deficiency disposed of $27.5) (note 4)	187.3	—	—
Acquisition (less working capital of $13.9 acquired in 1986 and $27.0 in 1985)	(7.7)	(61.7)	(6.7)
Increase in long term receivables	(66.1)	(73.6)	(77.4)
Miscellaneous	1.1	1.6	3.7
	$(1,442.7)	$(1,308.0)	$(1,191.2)
Dividends declared	$ (530.4)	$ (493.7)	$ (478.2)
Cash and temporary cash investments			
Increase (decrease) during the year	$ 118.4	$ (44.7)	$ (11.0)
At beginning of year	34.2	78.9	89.9
At end of year	$ 152.6	$ 34.2	$ 78.9

BELL CANADA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and all figures are in Canadian dollars. These statements conform in all material respects with International Accounting Standards. Certain 1985 and 1984 figures have been reclassified to conform with the 1986 presentation.

With respect to the consolidated financial statements of Bell Canada, the important differences between Canadian and United States generally accepted accounting principles are described and reconciled in note 15.

Bell Canada operates in a single industry segment which is telecommunications services. These services are provided principally in the provinces of Ontario and Québec and in the Northwest Territories. Bell Canada is subject to regulation, including examination of its accounting practices, by the Canadian Radio-television and Telecommunications Commission. As used herein "Corporation" means Bell Canada and its subsidiaries.

Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries, either direct or indirect, including the results of Bell Canada Management Corporation ("BCMC") and its subsidiary and associated companies up to December 31, 1986 at which date BCMC was sold to the parent company, Bell Canada Enterprises Inc. ("BCE").

At December 31, 1986, the principal subsidiary of Bell Canada was Tele-Direct (Publications) Inc. Bell Communications Systems Inc. ("BCSI"), a wholly-owned subsidiary acquired in the fourth quarter of 1986 from BCE, was amalgamated with Bell Canada effective January 1, 1987.

The principal associated companies (defined as 20 per cent to 50 per cent owned) of Bell Canada at December 31, 1986 were Telesat Canada and Bell-Northern Research Ltd. Investments in associated companies are accounted for by the equity method.

Depreciation

Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets.

When depreciable telecommunications property is retired, the amount at which it has been carried is charged to accumulated depreciation.

Research and development

All research and development costs incurred were charged to income.

Translation of foreign currencies

Current assets (excluding prepaid expenses), current liabilities and long term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets and other liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year except for depreciation and amortization which are translated at exchange rates prevailing when the related assets were acquired. Currency gains and losses are reflected in net income of the year except for unrealized foreign currency gains and losses on long term monetary assets and liabilities which are reported as deferred charges and amortized over the remaining lives of the related items on a straight line basis.

1. Significant accounting policies (continued)

Leases

Where the Corporation is the lessor, rental revenue from operating leases is recognized as service is provided to customers. For leases which qualify as sales-type leases, the sales revenue is recognized at the inception of the lease at the equivalent tariff rate.

Where the Corporation is the lessee, assets recorded under capital leases are amortized on a straight line method using rates based on the estimated useful life of the asset or based on the lease term, as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest.

Allowance for funds used during construction

Bell Canada's regulator requires it to provide for a return on total capital invested in new telephone plant while under construction by including an allowance for funds used during construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Income taxes

The Corporation uses the tax allocation basis of accounting for income taxes. The Corporation provides for income taxes based on accounting income for tax purposes included in the financial statements, regardless of when such income is subject to taxes under the tax laws.

2. Investment in the parent company

Bell Canada has an investment in the Second Preferred Shares, Series One of BCE which, under applicable corporate legislation, are required to be disposed of by Bell Canada or redeemed by BCE within five years of April 28, 1983. These shares, issued at $100 per share, have an annual dividend rate of $9 per share. Of the total initial investment of $478.7 million, $400 million of these Second Preferred Shares, Series One had been redeemed as at December 31, 1986 ($325 as at December 31, 1985).

3. Income taxes

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	Year ended December 31		
	1986	1985	1984
Statutory income tax rate	49.8%	48.5%	47.6%
(i) Income from investment in parent and associated companies included in net income	(.5)	(.9)	(1.7)
(ii) Allowance for funds used during construction, net of applicable depreciation adjustment	(.3)	(.1)	(.2)
(iii) Tax incentives on research and development expenditures	(1.0)	(1.1)	(1.1)
(iv) Amortization of unrealized foreign currency losses	.8	.7	.4
(v) Other	.5	(.3)	.2
Effective income tax rate	49.3%	46.8%	45.2%

Details of the Corporation's income taxes are as follows:

	(millions of dollars) Year ended December 31		
	1986	1985	1984
Income taxes			
Current	$601.5	$515.3	$434.1
Deferred	63.7	58.7	83.3
Total income taxes	$665.2	$574.0	$517.4

The deferred income taxes result principally from deductions for tax purposes, in respect of plant, in excess of amounts currently charged to operations.

4. **Extraordinary item**

A gain of $27.3 million (proceeds of $159.8 million less net book value of $132.5 million) resulted from the sale of BCMC to BCE, the parent company of Bell Canada.

5. **Lease obligations**

Property, plant and equipment includes property recorded under capital leases net of accumulated depreciation in the amount of $23.1 million as at December 31, 1986 ($24.9 — 1985).

The future minimum lease payments under capital and operating leases that have initial non-cancellable lease terms in excess of one year as of December 31, 1986 were as follows:

	(millions of dollars)	
	Capital leases	**Operating leases**
1987	$ 8.4	$ 77.2
1988	7.7	55.5
1989	9.8	38.2
1990	5.1	18.7
1991	5.0	14.2
Thereafter	21.3	18.9
Total future minimum lease payments	57.3	$222.7
Less: Estimated executory costs	25.3	
Net minimum lease payments	32.0	
Less: Imputed interest	10.0	
Present value of net minimum lease payments	$22.0	

Rental expense applicable to all operating leases for the year 1986 was $128.6 million ($107.2 — 1985, $108.1 — 1984).

6. **Lease receivables**

The net receivables from equipment contracts considered as sales-type leases comprise both long term receivables of $269.4 million ($205.4 — 1985) and current receivables of $69.1 million ($54.6 — 1985) included in current assets.

At December 31, 1986 the amounts of sales-type leases receivable by the Corporation were as follows:

	(millions of dollars)
1987	$112.3
1988	102.6
1989	87.1
1990	72.7
1991	51.5
Thereafter	37.7
	463.9
Less: Unearned income	125.4
Total net receivables	$338.5

In 1986, operating revenues include $50.2 million of finance income related to these contracts ($35.9 — 1985, $21.1 — 1984).

7. **Debt due within one year**

At December 31, 1986, debt due within one year comprised $45.7 million ($185.8 — 1985) of current portion of long term debt, $23.6 million ($43.8 — 1985) of notes payable, $138.0 million (nil — 1985) of term bank loan and nil ($9.6 — 1985) of bank advances.

8. Long term debt

Bell Canada's long term debt consists of the following:

	(millions of dollars)					
					Total outstanding December 31	
Rate of interest	4.80-7⅞%	8-9⅞%	10-12¾%	13⅜-16%	1986	1985
First mortgage bonds						
Due 1986	$ —	$ —	$ —	$ —	$ —	$ 37.0
1987	35.0	2.0	—	—	37.0	37.0
1988	119.0	2.0	—	—	121.0	121.9
1989	69.0	11.5	—	—	80.5	81.4
1990	30.0	52.6	—	—	82.6	82.6
1991	56.5	2.0	—	—	58.5	58.5
1992-2001	431.6	604.6	71.0	—	1,107.2	1,113.4
2002-2004	11.1	53.8	—	—	64.9	65.7
	752.2	728.5	71.0	—	1,551.7	1,597.5
Debentures and notes						
Due 1986	—	—	—	—	—	143.9
1987	3.4	—	—	—	3.4	142.5
1988	3.4	—	—	—	3.4	2.7
1989	3.4	—	—	100.0	103.4	102.7
1990	3.4	—	22.0	—	25.4	24.7
1991	3.4	—	50.0	207.1	260.5	212.3
1992-2000	68.7	—	125.0	125.0	318.7	304.5
2002-2010	—	1,177.2	425.0	276.1	1,878.3	1,613.5
	85.7	1,177.2	622.0	708.2	2,593.1	2,546.8
Obligations under capital leases					22.0	24.2
Other					36.2	37.5
Sub-total					4,203.0	4,206.0
Less: due within one year					45.7	185.8
Total					$4,157.3	$4,020.2

The first mortgage bonds of Bell Canada are secured by a first mortgage and a floating charge. First mortgage bonds include U.S. $518 million maturing from 1988 to 2004. Debentures and notes include U.S. $750 million maturing from 1991 to 2010 and 100 million Swiss Francs maturing in 1993. Other includes U.S. $24.9 million for a mortgage due in installments to 1995.

On August 26, 1986, Bell Canada issued 125,000 Series DT Debenture Purchase Warrants along with the issue of Debentures Series DS. Each warrant entitles the bearer to purchase at par from Bell Canada on or before September 1, 1987, $1,000 principal amount of 9.65% Debentures, Series DT, Due 2009. As of December 31, 1986, none had been exercised.

At December 31, 1986, the estimated amounts of long term debt payable by the Corporation in the years 1987 to 1991 are $45.7, $129.8, $193.2, $113.4 and $324.8 million, respectively.

9. Share capital authorized

The articles of incorporation of Bell Canada, as amended in 1985, provide that its authorized share capital, subject to a limit of $5,000,000,000 on the aggregate amount of its stated capital accounts, shall be divided into common shares and Class A preferred shares issuable in series, all without nominal or par value. The articles authorize the directors of Bell Canada to fix the number of preferred shares of each series to be issued, and the respective attaching conditions prior to their issue.

10. Preferred shares

Except for series 6 and 8, all outstanding Bell Canada preferred shares are owned by BCE.

	(dollars in millions)			
	Outstanding December 31, 1986		Outstanding December 31, 1985	
	Number of shares	Stated capital	Number of shares	Stated capital
Class A preferred shares				
Non-convertible preferred shares —				
$2.25 shares, series 1	1,037,000	$ 31.1	1,088,000	$ 32.6
$1.80 shares, series 2	2,721,300	54.4	2,826,300	56.5
$1.94 shares, series 8 (retractable)	6,000,000	150.0	—	—
		235.5		89.1
Convertible preferred shares —				
$1.96 shares, series 3	233,526	5.8	273,069	6.9
$2.05 shares, series 4	793,075	15.9	1,041,286	20.8
$2.70 shares, series 5	11,810,400	236.2	11,810,400	236.2
		257.9		263.9
Other preferred shares —				
Series 6	250	125.0	250	125.0
Aggregate stated capital of outstanding preferred shares		$618.4		$478.0

During the three year period ended December 31, 1986, Bell Canada issued, for cash, 250 Class A preferred shares, series 6 on December 10, 1985, and 6,000,000 Class A preferred shares, series 8 on November 13, 1986.

Following is a brief summary of the material characteristics of the preferred shares:

Redeemable at Bell Canada's option	Conversion basis	Number of shares converted at December 31, 1986
Class A preferred shares (a)		
Series 1 — Currently at $31.50 per share to Oct. 1, 1988 and at reducing amounts thereafter to $30 after Oct. 1, 2003.	Non-convertible	—
Series 2 — Currently at $21.20 per share to Oct. 2, 1991 and at reducing amounts thereafter to $20 after Oct. 2, 2006.	Non-convertible	—
Series 3 — Currently at $26 per share (b) to May 1, 1987 and at reducing amounts thereafter to $25 after May 1, 1990.	1 preferred for 1.213 common to May 1, 1990	6,766,474
Series 4 — Currently at $21.50 per share (b) to Apr. 15, 1987 and at reducing amounts thereafter to $20 after Apr. 15, 1992.	1 preferred for 1 common to Apr. 15, 1992	9,206,925
Series 5 — On Mar. 15, 1988 at $21.20 per share to Mar. 15, 1989 and at reducing amounts thereafter to $20 after Mar. 15, 1992.	1 preferred for 1 common to Mar. 15, 1992	2,100
Series 6 — On the business day following any auction date at $500,000 per share. (c)	(c)	—
Series 8 — On Dec. 1, 1996 at $26 per share to Dec. 1, 1997 and at reducing amounts thereafter to $25 after Dec. 1, 2000. (d)	Non-convertible	—

10. Preferred shares (continued)

(a) Class A preferred shares are non-voting and the holders of Class A preferred shares series 1 to 5 and series 8 are entitled to cumulative dividends at the respective rates set out in the designation of each series.

(b) In addition, since fewer than 1,050,000 preferred shares series 3 and fewer than 1,500,000 preferred shares series 4 remain outstanding, Bell Canada may also redeem all, but not part, of such shares at $25 and $20 per share respectively, at any time.

(c) The dividend rates per annum on the series 6 preferred shares are determined by monthly auctions held on the business day preceding the commencement of each dividend period, and are subject to a maximum of 65 per cent and to a minimum of 50 per cent of the average of the prime commercial lending rates of interest announced during the month by two specified Canadian chartered banks ("Prime Rate"). The dividend rate in effect on December 31, 1986 was 5.85 per cent.

In the event that three consecutive auctions have resulted in the application of the maximum current dividend rate as a result of there not being sufficient clearing bids, then each preferred share series 6 shall be converted into and shall become 5,000 Cumulative Redeemable Price Adjusted Floating Rate Class A preferred shares series 7 having a stated value of $100 per share, the conditions of which were authorized by the Board of Directors of Bell Canada on November 27, 1985.

Potential holders of preferred shares series 7 would be entitled to cumulative monthly dividends. The rates per annum would be determined monthly, and generally based on 65 per cent of the Prime Rate, subject to a further adjustment based on trading values of these shares during the month. The preferred shares series 7 would be non-convertible and redeemable at Bell Canada's option from time to time at $101 per share.

(d) The series 8 preferred shares are retractable at the option of the holder on December 1, 2001, at a price of $25 per share.

Except for series 6, 7 and 8, all preferred share issues are subject to purchase fund requirements and, taking into account purchases to December 31, 1986, the maximum aggregate stated capital of shares that Bell Canada may be required to purchase, if available pursuant to the terms of the purchase funds, in the years 1987 to 1991 are $11.7, $13.6, $9.5, $3.6 and $3.6 million, respectively.

The convertible preferred shares are in aggregate convertible into 12,886,742 common shares as at December 31, 1986. The decreases in the convertible preferred shares in 1986 resulted from the conversion of preferred shares to common shares. The decreases in the non-convertible preferred shares during the same period were due to purchases for cancellation to meet purchase fund requirements.

11. Common shares

All outstanding common shares of Bell Canada are owned by BCE.

	(dollars in millions)			
	December 31, 1986		December 31, 1985	
	Number of shares	Stated capital	Number of shares	Stated capital
Outstanding	204,967,839	$2,017.4	198,060,822	$1,861.4

The number of common shares issued during the last three years are as follows:

	1986	1985	1984
For cash	6,610,841	—	—
Upon conversion of preferred shares	296,176	966,780	2,214,489
	6,907,017	966,780	2,214,489

Premium on share capital represents the consideration received in excess of the then par value of common shares issued before the Corporation was continued under the Canada Business Corporations Act on April 21, 1982.

12. Unused bank lines of credit

At December 31, 1986, unused bank lines of credit, generally available at the banks' prime rate of interest, amounted to approximately $283.0 million.

13. Changes in working capital

Cash provided from (used for) changes in other working capital components:

	(millions of dollars) Year ended December 31		
	1986	1985	1984
(Increase) decrease in current assets:			
Accounts receivable	$(146.5)	$ (56.1)	$ (86.2)
Prepaid expenses	(4.3)	(12.2)	(4.0)
Other	(16.9)	(45.6)	5.5
Increase (decrease) in current liabilities:			
Accounts payable	(39.1)	76.0	(10.6)
Advanced billing and payments	12.8	9.1	2.3
Dividends payable	8.3	3.9	4.2
Taxes accrued	30.5	26.5	27.6
Interest accrued	4.6	5.1	6.1
(Increase) decrease in other working capital components	$(150.6)	$ 6.7	$ (55.1)

14. Quarterly financial data

Summarized consolidated quarterly financial data are as follows:

	(millions of dollars) Three months ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
1986				
Operating revenues	$1,474.1	$1,559.7	$1,575.6	$1,645.2
Net revenues	425.5	442.5	449.8	420.3
Income before extraordinary item	168.6	170.1	183.3	161.9
Net income	168.6	170.1	183.3	189.2
Net income applicable to common shares	156.2	157.6	171.3	175.7
1985				
Operating revenues	$1,383.9	$1,432.1	$1,456.5	$1,496.1
Net revenues	407.7	416.4	427.2	374.7
Net income	171.0	166.9	164.6	149.6
Net income applicable to common shares	160.0	156.2	153.9	138.6

15. Reconciliation of results reported in accordance with Generally Accepted Accounting Principles ("GAAP") in Canada with United States GAAP

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The important differences between Canadian and United States generally accepted accounting principles affecting the consolidated financial statements of Bell Canada are reconciled as follows:

	(millions of dollars) Three months ended			
	Mar. 31	**June 30**	**Sept. 30**	**Dec. 31**
1986				
Income before extraordinary item, as reported	$168.6	$170.1	$183.3	$161.9
Adjustments				
Foreign exchange (a)	7.5	19.6	(.7)	12.3
Extraordinary item (b)	—	—	—	27.3
Income before extraordinary item — U.S. GAAP	$176.1	$189.7	$182.6	$201.5
Net income — U.S. GAAP	$176.1	$189.7	$182.6	$201.5
1985				
Net income, as reported	$171.0	$166.9	$164.6	$149.6
Foreign exchange adjustment (a)	(45.6)	15.6	(13.4)	(25.2)
Net income — U.S. GAAP	$125.4	$182.5	$151.2	$124.4

	Year ended December 31		
	1986	**1985**	**1984**
Income before extraordinary item as reported	$683.9	$652.1	$626.7
Adjustments			
Foreign exchange (a)	38.7	(68.6)	(71.3)
Extraordinary item (b)	27.3	—	—
Income before extraordinary item — U.S. GAAP	$749.9	$583.5	$555.4
Net income — U.S. GAAP	$749.9	$583.5(c)	$555.4(c)

(a) The difference arises from the method of accounting, under Canadian GAAP, for unrealized foreign currency gains and losses on long term debt and under United States Financial Accounting Standards Board's Statement No. 52 — Foreign Currency Translation.

(b) The extraordinary item, as described in note 4, does not meet the criteria of extraordinary items under United States practice; consequently this item would be considered in determining income before extraordinary item under U.S. GAAP.

(c) If early retirement incentive plans in 1985 and 1984 had been treated in accordance with the United States Financial Accounting Standards Board's Statement No. 74 — Accounting for Special Termination Benefits paid to Employees, net income for these years would have decreased by $28.6 million and $30.3 million, respectively.

16. Supplementary income statement information

	(dollars in millions) Year ended December 31		
	1986	**1985**	**1984**
Operating expenses include:			
Depreciation expense, including amortization of property held under capital leases	$972.4	$950.4	$879.5
Depreciation — percentage of average depreciable property, plant and equipment	6.36%	6.63%	6.52%
Maintenance and repairs	$935.5	$883.9	$786.9
Taxes other than payroll and income taxes			
Property and business	$ 57.0	$ 55.2	$ 54.8
Gross receipts	227.8	215.3	201.3
Miscellaneous	36.8	35.3	30.4
Total	$321.6	$305.8	$286.5
Research and development expenses	$128.9	$120.1	$111.4

17. Related party transactions

During the year, the Corporation purchased equipment and related supplies from Northern Telecom Limited ("NTL") totalling $1,147.0 million ($989.4 — 1985, $763.9 — 1984), purchased printing services from BCE PubliTech Inc. totalling $58.1 million ($50.8 — 1985, $45.6 — 1984), and expensed $47.1 million ($49.3 — 1985, $52.2 — 1984) on research and development from Bell-Northern Research Ltd. These companies are subsidiaries of the parent company of Bell Canada.

In 1985, BCMC acquired all the outstanding securities of Bell Data Systems Inc. from NTL for a cash consideration of approximately $50 million; on December 31, 1986 Bell Canada sold its investment in BCMC to BCE (see note 4). On October 1, 1986, Bell Canada acquired from BCE its investment in BCSI for a cash consideration of approximately $22 million.

18. Pensions

The Corporation has non-contributory defined benefit plans which provide for service pensions based on length of service and rates of pay for substantially all its employees.

The policy is to fund pension costs through contributions based on actuarial cost methods as permitted by pension regulatory bodies. Such costs are funded as accrued and reflect actuarial assumptions regarding salary projection and future service benefits. The provision for pension costs was $184.0 million for the year ended December 31, 1986 ($195.5 — 1985, $194.9 — 1984).

In compliance with the United States Financial Accounting Standards Board's Statement No. 36, the disclosure of the following information is required to exclude actuarial assumptions regarding salary projection and future service benefits. A comparison of accumulated plan benefits and plan net assets is provided as follows:

	(millions of dollars)	
	December 31 1985	December 31 1984
Actuarial present value of accumulated plan benefits		
Vested	$2,304.9	$2,088.7
Non-vested	426.0	393.9
	$2,730.9	$2,482.6
Net assets available for benefits — at market value	$4,215.0	$3,287.3

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7 per cent for both 1985 and 1984.

In addition to pension benefits, the Corporation provides certain health care and life insurance benefits for retired employees. The costs of such benefits, excluding life insurance, are paid out of current income, as benefits are received, and in 1986 amounted to $9.7 million ($8.7 — 1985, $6.7 — 1984). Life insurance for retired employees is fully funded during their working lives.

19. Regulatory decision

On October 14, 1986, the Canadian Radio-television and Telecommunications Commission ("CRTC") rendered its decision on Bell Canada's revenue requirements for 1987, 1986 and 1985. The CRTC decision established rates of return on common equity which are to be applied retroactively for 1986 and 1985. The CRTC decision also directed that certain items which had been expensed in the periods since January 1, 1985 should be capitalized; as a result, operating expenses would have been reduced by approximately $60 million and $5 million for 1986 and 1985 respectively. Taking into account these determinations, the CRTC concluded that Bell Canada had earned excess revenues of $143 million and $63 million for 1986 and 1985, respectively and directed Bell Canada to provide most of its subscribers with a one-time credit totalling $206 million by January 31, 1987. Bell Canada has commenced appeal proceedings before the Federal Court of Appeal regarding that part of the CRTC decision which directed Bell Canada to provide the one-time credit to its subscribers, and the Court granted a stay of execution permitting Bell Canada to

19. Regulatory decision (continued)

withhold payment of the credit until the appeal has been decided. Management, supported by the opinion of legal counsel, believes that Bell Canada's appeal is likely to be successful.

The effect of the decision, as set out in this note, which has not been reflected in the financial statements for the years ended December 31, 1986 and 1985, would be to reduce net income by approximately $71 million after taking into account the tax effects, of which $42 million relates to 1986 (1st quarter $15 million; 2nd quarter $6 million; 3rd quarter $10 million; and 4th quarter $11 million) and $29 million to 1985 (1st quarter $11 million; 2nd quarter $10 million; 3rd quarter $7 million; and 4th quarter $1 million).

20. Subsequent event

On February 5, 1987 Bell Canada entered into an agreement for a public issue in Canada of $125 million of 9.45% Debentures, Series DU, Due 2011. This issue is expected to be completed on March 5, 1987.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On October 14, 1986, the Canadian Radio-television and Telecommunications Commission ("CRTC") rendered its decision on Bell Canada's revenue requirements for 1987, 1986 and 1985. The CRTC concluded that Bell Canada had earned excess revenues in 1986 and 1985; and directed Bell Canada to provide most of its subscribers with a one-time credit totalling $206 million by January 31, 1987 (see note 19, "Regulatory decision" of Notes to Consolidated Financial Statements). Bell Canada has commenced appeal proceedings before the Federal Court of Appeal regarding that part of the CRTC decision which directed Bell Canada to provide the one-time credit to its subscribers, and the Court granted a stay of execution permitting Bell Canada to withhold payment of the credit until the appeal has been decided.

The effect of the decision (as set out in note 19, referred to above) which has not been reflected in the financial statements for the years ended December 31, 1986 and 1985, would be to reduce net income by approximately $71 million after taking into account the income tax effects, of which $42 million relates to 1986 and $29 million to 1985.

In addition, the CRTC determined that, based on forecast revenues for 1987, a revenue reduction of $234 million would be required to achieve the allowed rate of return; and Bell Canada was ordered to lower its rates for long distance services within its territory effective January 1, 1987. On November 10, 1986, Bell Canada filed an application with the CRTC for a review of its decision of October 14, 1986 and requested the Commission to increase the revenue requirement for the year 1987 by $25.8 million. The application was denied by the CRTC on December 18, 1986.

Results of operations

Consolidated income before extraordinary item was $683.9 million in 1986 compared with $652.1 million and $626.7 million in 1985 and 1984, respectively. The extraordinary item in 1986 represents a gain in the amount of $27.3 million resulting from the sale of a subsidiary, Bell Canada Management Corporation ("BCMC") to Bell Canada Enterprises Inc. ("BCE"), the parent company of Bell Canada. BCMC was established as a wholly-owned subsidiary of Bell Canada and commenced operations in the first quarter of 1985.

Net income continued to benefit from growth in demand for telecommunications services. However, the effect on net income of this growth was partially offset by the following factors: the suspension of the interim rate increase of approximately 2 per cent for certain services which was in effect from January 1, 1985 to September 1, 1985, (the interim increase), and increased income tax rates.

Total operating revenues increased by $486.0 million (8.4 per cent) in 1986, by $478.0 million (9.0 per cent) in 1985 and by $478.2 million (9.9 per cent) in 1984. Excluding the impact in 1985 of the above interim increase, operating revenues increased by approximately 9.3 per cent in 1986 compared with 1985 and by 8.1 per cent in 1985 compared with 1984. Excluding the year over year impact of the 5 per cent rate award effective since September 1983 (the rate award), operating revenues increased 7.8 per cent in 1984 compared with 1983.

Local service revenues in 1986 increased by $20.8 million (0.9 per cent) compared with an increase of $56.0 million (2.5 per cent) in 1985 and $68.1 million (3.2 per cent) in 1984. Excluding the impact of the interim increase and the rate award, local service revenues increased by 2.1 per cent in 1986 over 1985, by 1.3 per cent in 1985 over 1984 and by 0.6 per cent in 1984 over 1983. Network access services (approximates lines in service) which account for the major portion of local service revenues, increased by 4.4 per cent compared with 3.9 per cent in 1985 and 3.8 per cent in 1984. This growth occurred in both the residential and the business markets. The local service revenues increases resulting from growth in network access services were partially offset by the impact of conversions from traditional rental services to sales-type lease services introduced in 1983 (the revenues of which are included in "Directory advertising and miscellaneous — net") and by some competitive erosion in the provision of terminal equipment.

Long distance service revenues increased by $297.8 million (10.3 per cent) in 1986 compared with $292.8 million (11.3 per cent) in 1985 and $244.7 million (10.4 per cent) in 1984. Excluding the impact of the interim increase and the rate award, long distance service revenues increased by 11.1 per cent in 1986, 10.5 per cent in 1985 and 8.4 per cent in 1984, primarily because of increases in the number of long distance messages. The

number of messages increased by 11.0 per cent in 1986 over 1985, 9.3 per cent in 1985 over 1984 and 7.6 per cent in 1984 over 1983.

Directory advertising and miscellaneous revenues increased by $167.4 million (26.7 per cent) in 1986, by $129.2 million (25.9 per cent) in 1985 and by $165.4 million (49.7 per cent) in 1984. The increase in 1986 is substantially due to increases in revenues from BCMC which was sold to BCE on December 31, 1986, from sales-type leases and from directory operations.

Operating expenses increased by $373.9 million (9.0 per cent) in 1986, by $334.4 million (8.8 per cent) in 1985 and by $326.7 million (9.4 per cent) in 1984. The increase in 1986 resulted primarily from higher employee related expenses, higher expenses incurred by BCMC and the expensing of various items which in the past had been capitalized.

Liquidity and capital resources

The principal requirement for additional funds of Bell Canada is to finance capital expenditures. Capital spending has increased in 1985 and 1986 reflecting the growth in demand for services. Gross capital expenditures were $1,648 million in 1986 compared to $1,409 million in 1985. Based on Bell Canada's current budget, capital expenditures in 1987 are expected to increase by approximately 8 per cent to $1,786 million.

During 1986 and 1985, funds from external sources amounted to $700 million and $525 million, respectively. These funds were obtained through issues of debentures in Europe and Canada for total amounts of $325 million in 1986 and $250 million in 1985; and issues of preferred shares to the public for $150 million in 1986 and $125 million in 1985. BCE also provided funds through the purchase of common shares issued by Bell Canada in 1986 for $150 million and the redemption of its Second Preferred Shares, Series One, held by Bell Canada for the amounts of $75 million and $150 million in 1986 and 1985, respectively.

Bell Canada's cash requirements in 1987, except for approximately one-third of the capital expenditures and the repayment of long term debt and term bank loan, of which approximately $184 million matures during the year, will be met by internally generated funds. Should Bell Canada's appeal before the Federal Court of Appeal be unsuccessful, the amount of the one-time credit of $206 million less its tax effect of approximately $100 million, would have to be added to Bell Canada's long term financing plan. External funds to meet the additional cash requirements are expected to include the offering of debt and preferred equity securities to the public, the issue of additional common equity to BCE, and the redemption by BCE of the balance of its Second Preferred Shares, Series One. The 1987 external financing program began with the signing of an agreement, on February 5, 1987, for a public issue in Canada of $125 million of 9.45% Debentures, Series DU, Due 2011.

As Bell Canada follows Canadian generally accepted accounting principles ("GAAP"), reference should be made to note 15 of Notes to Consolidated Financial Statements which reconciles the important differences between Canadian and United States GAAP.

SELECTED FINANCIAL AND OTHER DATA

	(dollars in millions)				
	1986	1985	1984	1983	1982
Income statement data					
Operating revenues —					
Telecommunications operations	$ 6,254.6	$ 5,768.6	$ 5,290.6	$ 4,812.4	$ 4,359.3
Contract operations	—	—	—	—	469.1
Total revenues	6,254.6	5,768.6	5,290.6	4,812.4	4,828.4
Income before extraordinary item	683.9	652.1	626.7	590.6	521.4
Net income	711.2	652.1	626.7	590.6	521.4
Dividends declared	530.4	493.7	478.2	459.2	419.8
Balance sheet data					
Total assets*	$12,693.2	$11,940.9	$11,375.4	$10,880.6	$10,620.0
Long term debt* (including current portion)	4,203.0	4,206.0	4,088.3	3,881.8	3,936.8
Preferred shares* (redeemable)	493.4	353.0	376.0	424.1	522.4
Other preferred shares* (series 6)	125.0	125.0	—	—	—
Gross capital expenditures	1,647.8	1,409.1	1,178.9	1,140.9	1,417.2
Financial ratios					
Percent return on average total capital	11.6	11.8	11.8	11.4	10.9
Percent return on average common equity	14.1†	13.8	13.9	13.5	12.7
Interest as a percent of total average debt	9.9	9.8	9.6	9.4	9.2
Debt as a percent of total capital*	44.5	46.2	47.3	46.6	47.7
Interest coverage	4.13	3.90	3.84	3.78	3.55
Other statistics					
Network access services (thousands)*	7,403.9	7,092.2	6,823.4	6,574.0	6,416.2
Long distance messages (millions)	1,028.4	926.8	847.8	787.8	746.9
Number of employees*	51,370	50,869	51,167	54,423	55,761
Salary and wage payments	$ 1,841.2	$ 1,744.5	$ 1,720.1	$ 1,606.7	$ 1,581.4

† After extraordinary item (before extraordinary item: 13.5 per cent).
* As at December 31.

DIRECTORS AND OFFICERS

The following information on directors and officers is as of January 1, 1987.

Directors

Name	Principal occupation
Roy Frederick Bennett, F.C.A.	President, Bennecon Limited
Claire Paradis Bertrand	Company Director
Jean Casselman Wadds, O.C.	Company Director
Joseph Victor Raymond Cyr	Chairman of the Board, Bell Canada and President, Bell Canada Enterprises Inc.
Albert Jean de Grandpré, O.C., Q.C.	Chairman of the Board and Chief Executive Officer, Bell Canada Enterprises Inc.
Geno Frederick Francolini	President and Chief Executive Officer, Xenon Capital Corporation
Paul Henri Leman, O.C.	Company Director
Léonce Montambault	President and Chief Executive Officer, Bell Canada
John Henderson Moore, F.C.A.	Company Director
Pierre Albert Nadeau Deceased January 22, 1987	Chairman of the Board, Tioxide Canada Inc.
John Harry Panabaker	Chairman of the Board, The Mutual Life Assurance Company of Canada
Gérard Plourde, O.C.	Company Director
Charles Richard Sharpe	Chairman of the Board and Chief Executive Officer, Sears Canada Inc.
James Carden Thackray	Company Director
Paul-Gaston Tremblay, C.M., C.A.	President, Primo-Gestion Inc.
Douglas Tyndall Wright, Ph.D.	President, University of Waterloo

Officers

Name	Offices
Joseph Victor Raymond Cyr	Chairman of the Board
Léonce Montambault	President and Chief Executive Officer
Jacques Bernard Bérubé	Executive Vice-President (Québec Region)
William Brian Hewat	Executive Vice-President (Marketing)
Jean Claude Monty	Executive Vice-President (Information Systems)
Charles Wesley Moore Scott	Executive Vice-President (Finance & Administration)
Richard Douglas Sloane	Executive Vice-President (Ontario Region)
Paul André Aubin	Vice-President (Administration), Québec Region
Jean Andrea Bernard	Vice-President (Personnel)
Gary Dickson Bray	Vice-President (Government & Regulatory Affairs)
Pierre Joseph Chagnon	Vice-President (Engineering)
Michael Stuart George Corlett	Vice-President (National Systems)
Douglas Wilfred Delaney	Vice-President (Administration), Ontario Region
John Hugh Farrell	President of Bell Information Systems
Robin Alexander Hamilton Harding	Vice-President and Comptroller
Guy Houle	Vice-President and Corporate Secretary
Pierre Jadoul	Vice-President (Network Services), Québec Region
Robert Kearney	Vice-President (Information Systems & Services)
Kamil Jameel Khan	Vice-President (Corporate Systems Organization)
Murray John Makin	Vice-President (Customer Services), Ontario Region
Owen Walter McAleer	Vice-President (Network Services), Ontario Region
Ernest Erle Saunders, Q.C.	Vice-President (Law & Corporate Affairs)
Alan Walter	Vice-President (Marketing & Development)

Printed in Canada

...spectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered ... only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any ...ed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada (the permanent information record in Québec). Copies of the documents incorporated herein by reference may be obtained on request without charge from the Vice-President and Corporate Secretary, Bell Canada, 1050 Beaver Hall Hill, Montréal, Québec H2Z 1S4 (telephone 514-870-5107).

New Issue

$150,000,000

Bell Canada

6,000,000 shares

$1.94 Cumulative Redeemable Retractable Class A Preferred Shares Series 8

The Cumulative Redeemable Retractable Class A Preferred Shares Series 8 (the "Series 8 Preferred Shares") will be entitled to fixed cumulative preferred cash dividends of $1.94 per share per annum, as and when declared by the board of directors, which will accrue from the date of issue and will be payable quarterly on the first day of March, June, September and December. Assuming an issue date of November 13, 1986, an initial dividend of $0.5807 per share will be payable on March 1, 1987.

Retraction Privilege

The Series 8 Preferred Shares are retractable at the option of the holder on December 1, 2001 at a price equal to $25.00 per share, together with all accrued and unpaid dividends. The provisions attaching to the Series 8 Preferred Shares, including particulars of the retraction privilege, are summarized under the heading "Details of the Offering".

The Montreal and Toronto stock exchanges have conditionally approved the listing of the Series 8 Preferred Shares. Listing is subject to Bell Canada fulfilling all of the requirements of such stock exchanges on or before January 26, 1987, including distribution of the Series 8 Preferred Shares to a minimum number of public shareholders.

In the opinion of Counsel, these Series 8 Preferred Shares will be eligible investments for insurance companies regulated under the Canadian and British Insurance Companies Act and Foreign Insurance Companies Act, in each case without recourse to the exceptional provisions thereunder permitting certain other investments.

Price: $25 per share to yield 7.76% per annum

	Price to Public and Proceeds to Bell Canada	Underwriters' Fee (1)	Net Proceeds to Bell Canada (1)(2)
Per share			
— minimum fee	$25.00	$0.25	$24.75
— maximum fee	$25.00	$0.75	$24.25
Total	$150,000,000	$2,700,000	$147,300,000

(1) The fee per Series 8 Preferred Share is $0.25 with respect to any such shares sold to certain institutions and $0.75 on all other sales. The total fee is expected to be approximately $2,700,000.

(2) Before deducting expenses of issue estimated at $185,000.

We, as principals, conditionally offer the Series 8 Preferred Shares subject to prior sale, if, as and when issued by Bell Canada and accepted by us, in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of Bell Canada by McMaster Meighen and on our behalf by Lafleur, Brown, de Grandpré.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing will occur on or about November 13, 1986.

October 30, 1986

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Documents Incorporated by Reference

The following documents, filed with the various securities commissions or similar authorities in Canada, are specifically incorporated by reference and form an integral part of this short form prospectus:

(a) Annual Information Form of Bell Canada dated February 26, 1986;

(b) Consolidated Financial Statements of Bell Canada for the year ended December 31, 1985 and the Auditors' Report thereon provided on pages 3 to 15 of Bell Canada's Annual Report 1985;

(c) Quarterly Reports of Bell Canada for the first and second quarters of 1986 containing the interim Consolidated Financial Statements for the three months ended March 31, 1986 and the six months ended June 30, 1986 respectively; and

(d) Notice of material change dated October 22, 1986 with respect to the determination by the Canadian Radio-television and Telecommunications Commission of Bell Canada's revenue requirements for 1985, 1986 and 1987.

Any Annual Information Form, material change reports (excluding confidential reports), interim financial statements and information circulars filed by Bell Canada with the various securities commissions or similar authorities in Canada after the date of this short form prospectus and prior to the termination of the offering made hereby, shall be deemed to be incorporated by reference into this short form prospectus.

Summary of the Offering

This summary is qualified by the detailed information appearing elsewhere in this short form prospectus.

Issue:	$1.94 Cumulative Redeemable Retractable Class A Preferred Shares Series 8.
Amount:	$150,000,000 (6,000,000 shares).
Price and Yield:	$25.00 per share to yield 7.76% per annum.
Dividends:	Fixed cumulative preferred cash dividends at an annual rate of $1.94 per share payable quarterly on the first day of March, June, September and December. Assuming an issue date of November 13, 1986, an initial dividend of $0.5807 per share will be payable on March 1, 1987.
Retraction:	Redeemable at the option of the holder on December 1, 2001 at $25.00 per share, plus accrued and unpaid dividends.
Redemption:	Not redeemable prior to December 1, 1996. Redeemable on and after such date at $26.00 per share, together with accrued and unpaid dividends, declining by $0.25 annually until December 1, 2000, and thereafter at $25.00.
Purchase for Cancellation:	Bell Canada may purchase Series 8 Preferred Shares at any price by tender to all shareholders or through the facilities of a stock exchange, or in any other manner at a price for such Series 8 Preferred Shares so purchased that shall not exceed the highest price offered for a board lot of the Series 8 Preferred Shares on any stock exchange on which such shares are listed on the date of purchase for cancellation.
Priority:	The Class A Preferred Shares rank in priority to the Common Shares with respect to the payment of dividends and with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of Bell Canada. Each series of Class A Preferred Shares ranks in such respect on a parity with every other series of Class A Preferred Shares.

Bell Canada

Bell Canada was incorporated by Special Act of the Parliament of Canada in 1880 and continued under the Canada Business Corporations Act effective April 21, 1982. Bell Canada may also be legally designated as The Bell Telephone Company of Canada or La Compagnie de Téléphone Bell du Canada and it has its principal and registered offices at 1050 Beaver Hall Hill, Montréal, Québec, Canada H2Z 1S4.

Bell Canada, formerly the parent company of the Bell group of companies, became a wholly-owned subsidiary of Bell Canada Enterprises Inc. as a result of the reorganization of the Bell group on April 28, 1983. Bell Canada is the largest Canadian supplier of telecommunications services and, as a telecommunications operating company, owns and operates a public switched network for voice, data and image communications in the provinces of Ontario and Québec and in the Northwest Territories. Bell Canada directly holds two wholly-owned subsidiaries, Tele-Direct (Publications) Inc. and Bell Canada Management Corporation. Tele-Direct (Publications) Inc. is engaged in the sale of telephone directory advertising and in the publishing of white pages and Yellow Pages* directories for Bell Canada and other Canadian telephone companies. Bell Canada Management Corporation was established in January 1985 for the purpose of holding and managing the investments of Bell Canada in new business opportunities. In addition, Bell Canada has minority common equity interests in Telesat Canada, which is engaged in the provision of satellite communications services, and in Bell-Northern Research Ltd., an industrial research and development organization.

Recent Developments

On October 14, 1986, the Canadian Radio-television and Telecommunications Commission ("CRTC") rendered its decision, following a public hearing held in June and July of this year, with respect to the determination of Bell Canada's revenue requirements for 1985, 1986 and 1987.

The CRTC concluded that Bell Canada's permissible range of rate of return on common equity on a regulated basis should have been 12.75% to 13.75% for 1985, and would be between 12.25% and 13.25% for each of 1986 and 1987. The CRTC also directed that certain items which had been expensed since January 1, 1985 should be capitalized. As a result, operating expenses would have been reduced by $9 million for the full year 1985 and would be reduced by $57 million for the full year 1986.

Based on these determinations, the CRTC concluded that Bell Canada earned excess revenues of $63 million for 1985 and would earn excess revenues of $143 million for the full year 1986, and has directed Bell Canada to provide its subscribers with a one-time credit by January 31, 1987, determined by pro-rating the sum of the excess revenues for 1985 and 1986 of $206 million in relation to each subscriber's monthly billing for specified basic local services provided as of the date of the decision.

In addition, the CRTC, based on forecasted revenues for 1987, determined that a revenue reduction of $234 million would be required to achieve an allowed rate of return of 12.75%, being the middle point of the permissible range of rate of return for 1987. In order to achieve the necessary revenue reduction for 1987, Bell Canada was ordered to lower its rates for long distance services within its territory as of January 1, 1987; Bell Canada was directed to file proposed tariff revisions by November 17, 1986, which would give effect to the rate changes specified in the decision. The CRTC estimated that these rate reductions would average about 20%, but will vary according to the category of long distance services.

Bell Canada is considering pursuing various avenues to vary certain aspects of the decision. One such avenue is to appeal to the Federal Court of Appeal the legality of the CRTC's order to Bell Canada to rebate to Bell Canada's subscribers certain amounts with respect to the years 1985 and 1986. An application for a review by the CRTC of the treatment of Bell Canada's revenues and rate of return for 1987 is also being considered.

Should the CRTC's decision not be varied as a result of the appeal, and taking into account the tax effects of the decision, it is estimated that net income would have been reduced by $70 million of which $27 million would have been applicable to the full year 1985 and $43 million would be applicable to the full year 1986.

*Trademark

Current Operating Results

Consolidated results for the three months and the nine months ended September 30, 1986, along with the comparative figures for 1985, are summarized below: †

	Three months ended September 30		Nine months ended September 30	
	1986	1985	1986	1985
	(millions of dollars)			
Operating revenues	$1,575.6	$1,456.5	$4,609.4	$4,272.5
Operating expenses	1,125.8	1,029.3	3,291.6	3,021.2
Net revenues	$ 449.8	$ 427.2	$1,317.8	$1,251.3
Net income	$ 183.3	$ 164.6	$ 522.0	$ 502.5

† Since Bell Canada is considering appealing the CRTC decision of October 14, 1986, the effect of the decision, as set out above under "Recent Developments", has not been reflected in the above financial data.

Asset and Earnings Coverages

The following financial ratios, which give effect to this issue of Series 8 Preferred Shares, are calculated as at or for the twelve months ended September 30, 1986: ††

	Preferred Shares	Long Term Debt and Preferred Shares
Earnings coverage	11.4 times	3.2 times*
Net tangible asset coverage:		
Before deduction of deferred income taxes	10.7 times	2.2 times
After deduction of deferred income taxes	8.1 times	1.9 times

†† Had the CRTC decision discussed under "Recent Developments" been in effect for the twelve months ended September 30, 1986, Bell Canada estimates that earnings coverage with respect to preferred shares would be 10.8 times and with respect to long term debt and preferred shares would be 3.1 times, while the net tangible asset coverages would not be significantly different.

* For this calculation a consolidated effective tax rate of 49.8% was used for the twelve months ended September 30, 1986.

Use of Proceeds

The net proceeds from the sale of the Series 8 Preferred Shares, estimated at $147,115,000 after deducting the expenses of issue estimated at $185,000, will form part of the general funds of Bell Canada and will be used to pay for part of Bell Canada's expenditures for the acquisition and construction of additions and improvements to its telecommunications system and to provide additional working funds.

Plan of Distribution

Under an agreement dated October 22, 1986 between Bell Canada and Burns Fry Limited, Dominion Securities Inc. and Wood Gundy Inc., as underwriters (the "Underwriters"), Bell Canada has agreed to sell and the Underwriters have agreed to purchase on November 13, 1986, or on such later date as may be agreed upon, but in any event not later than December 9, 1986, all but not less than all of the 6,000,000 Series 8 Preferred Shares at a price of $25.00 per share payable in cash to Bell Canada against delivery of the Series 8 Preferred Shares. In consideration for their services in connection with this offering, Bell Canada has agreed to pay the Underwriters a fee of $0.25 per share on sales to certain institutions and a fee of $0.75 per share on all other sales, with the total fee estimated to be approximately $2,700,000. All fees payable to the Underwriters will be paid on account of services rendered in connection with the offering and will be paid out of the general funds of Bell Canada.

The obligations of the Underwriters under such agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated by them or Bell Canada upon the occurrence of certain other stated events. The Underwriters are, however, obligated to take up and pay for all the Series 8 Preferred Shares if any Series 8 Preferred Shares are purchased under such agreement.

In connection with this offering, the Underwriters may over-allot the Series 8 Preferred Shares offered by this short form prospectus or effect transactions which stabilize or maintain the market price of the Series 8 Preferred

Shares at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Description of Share Capital

The articles of Bell Canada provide that its authorized share capital shall be divided into an unlimited number of common shares (the "Common Shares") and an unlimited number of Class A Preferred Shares issuable in series, all without nominal or par value and subject to a limit of $5,000 million on the aggregate amount of the stated capital accounts of Bell Canada. The issuance of shares is subject to the approval of the Canadian Radio-television and Telecommunications Commission as to amount, terms and conditions. As of the date of this short form prospectus, all the outstanding Common Shares and Class A Preferred Shares are owned by Bell Canada Enterprises Inc., with the exception of the Cumulative Redeemable Class A Preferred Shares Series 6.

Common Shares

Holders of Common Shares are entitled to one vote per share at all meetings of shareholders, except meetings at which only holders of other classes or series of shares of Bell Canada are entitled to vote. Subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of Bell Canada, holders of Common Shares are entitled to receive such dividends payable in money, property, or by the issue of fully paid shares of Bell Canada as may be declared by its directors, and they are also entitled to receive the remaining property of Bell Canada upon liquidation, dissolution or winding-up. Holders of Common Shares have no pre-emptive, redemption or conversion rights. All outstanding Common Shares of Bell Canada are fully paid and non-assessable.

Class A Preferred Shares

The directors of Bell Canada may from time to time issue Class A Preferred Shares in one or more series and determine for any such series its designation, number of shares and respective rights, privileges, restrictions and conditions. The Class A Preferred Shares rank in priority to the Common Shares with respect to the payment of dividends and with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of Bell Canada. Each series of Class A Preferred Shares ranks in such respects on a parity with every other series of Class A Preferred Shares.

The holders of Class A Preferred Shares do not have the right to receive notice of, attend, or vote at, any meeting of shareholders except to the extent otherwise provided in the articles of Bell Canada with respect to any series of Class A Preferred Shares, or when the holders of Class A Preferred Shares are entitled to vote separately as a class or as a series as provided in the Canada Business Corporations Act (the "CBCA"). In connection with any matter requiring the approval of the Class A Preferred Shares as a class, the holders of existing series of Class A Preferred Shares are entitled to one vote in respect of each Class A Preferred Share held, with the exception of the holders of the Cumulative Redeemable Class A Preferred Shares Series 6 (having a stated value of $500,000 per share) who are entitled to 5,000 votes for each such share. Bell Canada may, without the approval of the holders of the Class A Preferred Shares, as a class, create any new class of shares ranking on a parity with the Class A Preferred Shares. Holders of Class A Preferred Shares have no pre-emptive rights. All outstanding Class A Preferred Shares of Bell Canada are fully paid and non-assessable.

The provisions attaching to the Class A Preferred Shares may be repealed, altered, modified or amended with such approval as may then be required by the CBCA, currently being at least two-thirds of the votes cast at a meeting or adjourned meeting of the holders of such shares duly called for the purpose and at which a quorum is present.

Details of the Offering

Details of the Series 8 Preferred Shares

On October 22, 1986 the board of directors of Bell Canada authorized the creation of 6,000,000 Series 8 Preferred Shares of Bell Canada. The Series 8 Preferred Shares offered hereby will have attached thereto the series provisions summarized below. Bell Canada will furnish upon request a copy of the text of the provisions attaching to the Series 8 Preferred Shares.

Issue Price and Stated Value

The Series 8 Preferred Shares will have an issue price and stated value of $25.00 per share.

Dividends

The holders of the Series 8 Preferred Shares will be entitled to receive fixed cumulative preferred cash dividends as and when declared by the board of directors of Bell Canada, at an annual rate of $1.94 per share to accrue from the date of issue and to be paid quarterly on the first day of March, June, September and December in each year.

The initial dividend will be payable on March 1, 1987 at an annual rate of $1.94 prorated for the period from and including the date of issue to but excluding March 1, 1987 and, assuming an issue date of November 13, 1986, will be $0.5807 per share.

Retraction Privilege

A holder of Series 8 Preferred Shares may require Bell Canada to redeem any or all of his Series 8 Preferred Shares on December 1, 2001 (the "Retraction Date") at a price equal to $25.00 per share plus an amount equal to all accrued and unpaid dividends to the date of payment (the "Retraction Price").

Bell Canada will give not less than 45 days' and not more than 60 days' notice prior to December 1, 2001 to the holders of Series 8 Preferred Shares of their retraction right on the Retraction Date. A holder of Series 8 Preferred Shares wishing to exercise the retraction privilege must, at least 15 days and no more than 60 days prior to the Retraction Date, complete and sign the retraction panel on his share certificate or the election form provided for that purpose by Bell Canada or the transfer agent and deposit the certificate and such election form, if any, with the transfer agent, whereupon the election made therein will be irrevocable unless, in the case of an election to have shares redeemed by Bell Canada, Bell Canada fails to redeem all of the shares in respect of which such an election was made. To the extent that Bell Canada fails to redeem shares for which such an election was made on the Retraction Date, the holder may withdraw all but not less than all of the shares so deposited for redemption and not redeemed and Bell Canada shall thereafter have no obligation to redeem any of such shares in connection with the Retraction Date.

If the redemption by Bell Canada on the Retraction Date of all Series 8 Preferred Shares required to be redeemed would be contrary to applicable law, Bell Canada will be required to redeem on a pro rata basis the maximum number of shares (rounded to the next lower multiple of 1,000 shares) as it is permitted to redeem on the Retraction Date. Thereafter, Bell Canada will be required to redeem on a pro rata basis on each succeeding dividend payment date such further maximum number of shares (rounded, except for the final redemption of any number of shares less than 1,000, to the next lower multiple of 1,000 shares) as it is then permitted to redeem, until all shares required to be redeemed on the Retraction Date have been redeemed.

Redemption

The Series 8 Preferred Shares will not be redeemable prior to December 1, 1996 but will be redeemable, subject to applicable law and to "Restrictions on Dividends and Retirement of Shares" on or after that date at the option of Bell Canada in whole at any time or in part from time to time, at the following prices:

If the date of redemption is in the 12 months commencing December 1	Price per share
1996	$26.00
1997	$25.75
1998	$25.50
1999	$25.25
2000 and thereafter	$25.00

plus an amount equal to all accrued and unpaid dividends to the date of redemption, the whole constituting the "Redemption Price."

Notice of the redemption will be given by Bell Canada not less than 30 days prior to the date fixed for redemption. If less than all Series 8 Preferred Shares are at any time to be redeemed, the shares to be redeemed will be selected by lot in such manner as the board of directors shall in its sole discretion determine or, if the board of directors so determines, shall be redeemed pro rata disregarding fractions of shares provided that registered holdings of 10 shares or less will be redeemed in full.

Purchase for Cancellation

Subject to the restrictions under "Restrictions on Dividends and Retirement of Shares", Bell Canada may at any time purchase for cancellation all or any number of Series 8 Preferred Shares at any price by tender to all holders of Series 8 Preferred Shares or through the facilities of any stock exchange on which the Series 8 Preferred Shares are listed, or in any other manner provided that, in such case, the price for such Series 8 Preferred Shares so purchased for cancellation shall not exceed the highest price offered for a board lot of the Series 8 Preferred Shares on any stock exchange on which such shares are listed on the date of purchase for cancellation.

Restrictions on Dividends and Retirement of Shares

Bell Canada will not, without the approval of the holders of outstanding Series 8 Preferred Shares:

(a) declare, pay or set apart for payment any dividends on the Common Shares or any other shares of Bell Canada ranking junior to the Series 8 Preferred Shares (other than stock dividends payable in shares of Bell Canada ranking junior to the Series 8 Preferred Shares); or

(b) redeem, purchase or otherwise retire or make any capital distribution on or in respect of the Common Shares or any other shares of Bell Canada ranking junior to the Series 8 Preferred Shares (except out of the net cash proceeds of a substantially concurrent issue of shares of Bell Canada ranking junior to the Series 8 Preferred Shares); or

(c) except in connection with the exercise of the retraction privilege attaching thereto, redeem, purchase or otherwise retire less than all the Series 8 Preferred Shares then outstanding; or

(d) except in connection with the exercise of the retraction privilege attaching thereto, redeem, purchase or otherwise retire any other shares of Bell Canada ranking on a parity with the Series 8 Preferred Shares;

unless, in each such case, all dividends on outstanding Series 8 Preferred Shares accrued up to and including the dividend payable on the last preceding dividend payment date shall have been declared and paid.

Any approval of the holders of the Series 8 Preferred Shares required hereunder may be given by the affirmative vote of the holders of the majority of the shares represented at a meeting, or adjourned meeting, of the holders of Series 8 Preferred Shares duly called for the purpose and at which a quorum is present.

Rights on Liquidation

In the event of any liquidation, dissolution or winding-up of Bell Canada, the holders of the Series 8 Preferred Shares will be entitled to receive $25.00 per Series 8 Preferred Share plus an amount equal to all accrued and unpaid dividends up to the date of payment or distribution before any payment or distribution is made to the holders of the Common Shares or any other shares of Bell Canada ranking junior to the Series 8 Preferred Shares. Upon payment of such amounts, the holders of the Series 8 Preferred Shares will not be entitled to share in any further distribution of assets of Bell Canada.

Voting Rights

The holders of Series 8 Preferred Shares will not be entitled (except as otherwise provided by law) to receive notice of, attend, or vote at, any meeting of the shareholders of Bell Canada unless Bell Canada shall have failed to pay eight dividends on the Series 8 Preferred Shares, whether or not consecutive. In that event, and for only so long as any such dividends remain in arrears, the holders of Series 8 Preferred Shares will be entitled to receive notice of and to attend all shareholders' meetings, and to one vote for each share held, except meetings at which only holders of another specified class or series are entitled to vote.

In connection with any action to be taken by Bell Canada which requires the approval of the holders of Series 8 Preferred Shares voting as a series or as part of the class, each such share shall entitle the holder thereof to one vote.

Modification

The provisions attaching to the Series 8 Preferred Shares as a series may be repealed, altered, modified or amended with such approvals as may then be required by the CBCA, currently being at least two-thirds of the votes cast at a meeting or adjourned meeting of the holders of Series 8 Preferred Shares duly called for the purpose and at which a quorum is present.

Income Tax Considerations

In the opinion of McMaster Meighen and Lafleur, Brown, de Grandpré, the following is a summary of the principal income tax considerations for prospective purchasers residing in Canada who will hold their Series 8 Preferred Shares as capital property and that deal at arm's length with Bell Canada, and is based on and limited to the current provisions of the Income Tax Act (Canada) and the Ways and Means Motion to amend such Act of June 11, 1986 ("Motion") on the assumption that it will be reintroduced in Parliament in substantially the same form, and the Taxation Act (Québec), taking into account the Budgetary and Financial Policy Statement of December 18, 1985 ("Policy Statement") and the Budget of May 1, 1986 ("Budget").

This summary does not deal with all possible income tax considerations and should not be construed as legal or tax advice to a prospective investor. Unless otherwise noted the income tax considerations applicable pursuant to the Taxation Act (Québec) are the same as those applicable pursuant to the Income Tax Act (Canada). Prospective purchasers should consult their tax advisors with respect to their particular circumstances.

Taxation of Dividends

In the case of an individual, dividends on Series 8 Preferred Shares will be taxable pursuant to the normal rules of gross-up and dividend tax credit. The Motion and the Budget provide that effective January 1, 1987 the amount of the gross-up and the dividend tax credit will be reduced, thereby increasing the effective rate of tax on dividends. Grossed-up dividends will be eligible for the annual deduction of up to $1,000 for qualifying Canadian source interest and grossed-up dividends. The Budget provides, beginning in the 1986 taxation year, for the reduction of the maximum amount of this annual deduction by half, except in certain circumstances for taxpayers considered to be retired.

In the case of a corporation which is a "specified financial institution" within the meaning of the Income Tax Act (Canada), dividends will be included in computing its income, but will be deductible in computing its taxable income, provided that the Series 8 Preferred Shares have not been acquired in the ordinary course of the business carried on by that institution, or provided that the Series 8 Preferred Shares are listed on a prescribed stock exchange in Canada and that such institution, either alone or with persons with whom it does not deal at arm's length, does not receive in the aggregate dividends in respect of more than 10% of the Series 8 Preferred Shares issued and outstanding at the time such dividends are received. In the case of a corporation which is not a "specified financial institution", dividends on a Series 8 Preferred Share (including any amount deemed to be a dividend) will be included in computing its income and normally will be deductible in computing its taxable income.

Private corporations, as defined in the Income Tax Act (Canada), and certain other corporations may be subject to a refundable tax pursuant to Part IV of the said Act at a rate of 25% (the Motion provides that effective January 1, 1987 the rate will be increased to 33-1/3%) on dividends received on the Series 8 Preferred Shares. The Taxation Act (Québec) does not impose a similar tax.

Disposition

In general, the disposition or deemed disposition of Series 8 Preferred Shares will give rise to a capital gain (or a capital loss) to the extent that the proceeds of disposition, net of costs of disposition, exceed (or are lesser than) the adjusted cost base to the shareholder of such shares immediately before the disposition. In the case of a corporation which disposes of these shares, the amount of the capital loss otherwise determined may be reduced, to the extent and in the circumstances prescribed by law, by the amount of dividends received or deemed received on the shares. Similar rules apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Series 8 Preferred Shares.

Individuals, other than trusts, are entitled to a cumulative lifetime exemption of a maximum of $500,000 of capital gains ($250,000 of taxable capital gains) by means of a special deduction in the computing of taxable

income. This special deduction may be used in respect of taxable capital gains resulting from dispositions of Series 8 Preferred Shares subject to cumulative limits of $25,000 for 1986, $50,000 for 1987, $100,000 for 1988, $150,000 for 1989 and $250,000 for 1990 and following years. The Budget provides for the harmonization of the Québec legislation with respect to this deduction.

The redemption or purchase for cancellation by Bell Canada of a Series 8 Preferred Share will constitute a disposition, but the proceeds of disposition will not include any dividend which is deemed to be received by the shareholder upon the redemption or purchase for cancellation. An amount received upon redemption or purchase for cancellation of Series 8 Preferred Shares (except actual dividends) which exceeds the paid-up capital attributable to these shares will generally be deemed to be a dividend in the hands of all shareholders who receive such an amount, unless the shares are purchased in the open market by Bell Canada in the manner in which shares would normally be purchased by any member of the public in the open market. The amount of any such deemed dividend will not be included in computing the proceeds of disposition to any shareholder for purposes of computing the capital gain or capital loss arising on the disposition of the shares.

Proposed Minimum Tax

For the 1986 and subsequent taxation years, the Motion, the Policy Statement and the Budget propose to amend the Income Tax Act (Canada) and the Taxation Act (Québec) respectively to introduce an alternative minimum personal income tax. Individuals (other than related segregated fund trusts and mutual fund trusts) will be required to compute an adjusted taxable income amount under which certain items will not be deductible or exempt. Taxable dividends (without application of the dividend gross-up), the full amount of capital gains in respect of which the lifetime capital gains exemption has not been claimed and one-half of capital gains in respect of which the lifetime capital gains exemption has been claimed will be included in the adjusted taxable income amount. Various deductions will be denied including the annual deduction for qualifying Canadian investment income. Taking into account the 14.2% federal alternative minimum tax calculated before the federal surtax but after the Québec abatement, a combined tax rate (federal and Québec) of 27.78% will be applied to the adjusted taxable income amount less (where the individual is not a trust) a minimum tax exemption of $40,000 plus the regular personal exemptions. If the minimum tax so calculated exceeds the tax otherwise payable, then the minimum tax will be payable. Any additional tax payable for a year by reason of the minimum tax rules may be carried forward and deducted from regular tax liability in the seven subsequent years. Where a taxpayer dies any unused carryover may be deducted from regular tax liability for the three years preceding the year of death.

Transfer Agent and Registrar

The transfer agent and registrar for the Series 8 Preferred Shares is Bell Canada Enterprises Inc. at its offices in Montréal and Toronto.

Statutory Rights of Withdrawal and Rescission

Securities legislation in several of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, but such remedies must be exercised by the purchaser within the time limit prescribed by the securities legislation of his province. The purchaser should refer to any applicable provisions of the securities legislation of his province for the particulars of these rights or consult with a legal advisor.

CERTIFICATE OF BELL CANADA

Dated: October 30, 1986

The foregoing, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities laws of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and New Brunswick. This short form prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed, as required by the securities laws of Québec.

Chief Executive Officer	Chief Financial Officer
(Signed) J.V.R. Cyr Chairman of the Board, President and Chief Executive Officer	(Signed) C.W.M. Scott Vice-President (Finance and Corporate Performance)

On behalf of the Board of Directors:

Director	Director
(Signed) G.F. Francolini	(Signed) J.C. Thackray

CERTIFICATE OF UNDERWRITERS

Dated: October 30, 1986

To the best of our knowledge, information and belief, the foregoing, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities laws of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and New Brunswick. To our knowledge this short form prospectus, as supplemented by the permanent information record, contains no misrepresentation that is likely to affect the value or the market price of the securities to be distributed, as required by the securities laws of Québec.

Burns Fry Limited	Dominion Securities Inc.	Wood Gundy Inc.
By: (Signed) Gordon A. Howell	By: (Signed) L.H. Goth	By: (Signed) T.C.W. Reid

The following includes the names of all persons having an interest either directly or indirectly, to the extent of not less than 5% in the capital of:

Burns Fry Limited: wholly-owned by Burns Fry Corporation;

Dominion Securities Inc.: Dominion Securities Limited; and

Wood Gundy Inc.: wholly-owned by The Wood Gundy Corporation.

Litho Canada
PLOW & WATTERS